

Message Text

UNCLASSIFIED

PAGE 01 STATE 253518

70 S

ORIGIN SS-15

INFO OCT-01 SSO-00 ISO-00 RSC-01 /017 R

DRAFTED BY P:JJSISCO:DAV

APPROVED BY P:JJSISCO

S/S:REWOODS

----- 004654

P 162118Z NOV 74

FM SECSTATE WASHDC

TO AMEMBASSY JIDDA PRIORITY

UNCLAS STATE 253518

E.O. 11652: N/A

TAGS: ENRG, US, XF, SA

SUBJECT: PRICE REDUCTIONS ON ARABIAN GULF: SAUDI ARABIAN
CRUDE

REFERENCE: STATE 252281

FOR AMBASSADOR FROM SISCO

1. IN CONNECTION WITH YOUR CONVERSATION WITH YAMANI YOU MAY
BE INTERESTED IN KNOWING THAT THE FOLLOWING ARTICLE
APPEARED DATELINE RIYADH, SAUDI ARABIA, IN THE WALL STREET
JOURNAL OF 11/15/74:

BEGIN TEXT : SAUDI ARABIA TO QUOTE GIVE BACK TO CONSUMERS
UNQUOTE REVENUE GAIN FROM NEW OIL-PRICE BOOSTS

RIYADH, SAUDI ARABIA--SAUDI ARABIA HAS A PLAN TO QUOTE GIVE
BACK TO CONSUMERS UNQUOTE THE REVENUE IT STANDS TO GAIN FROM
TAX AND ROYALTY INCREASES ANNOUNCED EARLIER THIS WEEK,
SHEIKH ADMED ZAKI YAMANI, MINISTER FOR PETROLEUM, SAID.

SHEIKH YAMANI SUGGESTED THAT THE PLAN WOULD EITHER BE
ANNOUNCED OR BECOME APPARENT IN ABOUT A WEEK. HE SAID
SAUDI ARABIA WOULD SOLICIT THE COOPERATION OF QUOTE
CONSUMERS IN CONSUMING COUNTRIES UNQUOTE TO MAKE THE PLAN
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 STATE 253518

WORK. AND HE HINTED THAT IT COULD MEAN REDUCING THE SHARE OF CRUDE OIL PRODUCED BY ARABIAN AMERICAN OIL CO., OR ARAMCO, THAT ITS FOUR U.S. OIL COMPANY OWNERS ARE ALLOWED TO BUY BACK.

THE SAUDI POLICY, HE SAID IS QUOTE TO TAKE FROM THE OIL COMPANIES AND TO GIVE TO THE CONSUMERS. I WANT TO DENY CATEGORICALLY THAT SAUDI ARABIA WANTS TO MAKE ADDITIONAL MONEY. WE DON'T WANT A SINGLE DOLLAR FROM WHAT TOOK PLACE IN ABU DHABI. WE WANT TO PASS IT COMPLETELY TO THE CONSUMERS.

WHEN THE SAUDI PLAN IS SPELLED OUT CLEARLY AND WE START IMPLEMENTING THIS PLAN IN A FEW DAYS TIME, YOU WILL REALIZE WHAT IS BEHIND IT AND BE MORE AWARE OF (ITS) EFFECT AND CONSEQUENCES, UNQUOTE HE ASSERTED.

ABU DHABI ACCORD

AT A MEETING LAST WEEKEND AT ABU DHABI, THREE PERSIAN GULF PRODUCERS, INCLUDING SAUDI ARABIA, THE WORLD'S LARGEST PETROLEUM EXPORTER, AGREED TO REDUCE THEIR POSTED PRICE FOR OIL--THE THEORETICAL PRICE USED TO COMPUTE TAXES--BY 40 CENTS A BARREL, FROM DOLS 11;65 A BARREL. BUT THEY ALSO AGREED TO RAISE TAXES AND ROYALTIES PAID TO THEM BY THE INTERNATIONAL OIL COMPANIES, MEANING A NET INCREASE IN WHAT THE COMPANIES PAY FOR OIL.

JOINING SAUDI ARABIA IN THIS MOVE WERE QATAR AND THE UNITED ARAB EMIRATES. KUWAIT WILL GO ALONG WITH THE SAUDI PLAN, BUT WANTS TO WAIT FOR THE MEETING NEXT MONTH ON THE ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES, OR OPEC, BEFORE COMMITTING ITSELF, THE SAUDI MINISTER SAID.

ALGERIA IS ALSO GOING ALONG WITH THE SAUDI PROPOSAL.

LIBYA HAS REJECTED IT, SHEIKH YAMANI SAID, AS HAS IRAQ, WHICH WANTS TO RAISE POSTED PRICES.

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 STATE 253518

THE REDUCTION IN POSTED PRICES HAS THE EFFECT OF CUTTING THE PRICE FOR THE SMALL AMOUNT OF SAUDI OIL THAT IS SOLD ON THE OPEN MARKET AT 93 PERCENT OF POSTED PRICES, OR ABOUT DOLS 10.84 A BARREL. BUT IT INCREASES THE AVERAGE COST PER BARREL TO THE AMERICAN SHAREHOLDERS IN ARAMCO, WHO ARE STANDARD OIL CO. OF CALIFORNIA, TEXACO INC., EXXON CORP. AND MOBIL OIL CORP.

AVERAGE COST

THE AMERICAN COMPANIES HAVE BEEN TAKING 95 PERCENT OF ARAMCO'S PRODUCTION IN SAUDI ARABIA AT AN AVERAGE COST PER BARREL OF ABOUT DOLS 9.80. THIS IS THE AVERAGE OF THE TAXES AND ROYALTIES THEY PAY ON THE 40 PERCENT OF ARAMCO'S OIL IN WHICH THEY SHARE EQUAL STAKES AND WHAT THEY BUY BACK FROM THE SAUDI GOVERNMENT, WHICH OWNS THE REMAINING 60 PERCENT OF ARAMCO.

THIS AVERAGE PER-BARREL COST WILL RISE AS A RESULT OF THE ABU DHABI AGREEMENT, SHEIKH YAMANI SAID. HE DECLINED TO SAY HOW MUCH IT WOULD RISE, BUT THE INCREASE WORKS OUT AT CLOSE TO 58 CENTS FOR A 42-GALLON BARREL.

SHEIKH YAMANI SAID SAUDI'S FORTHCOMING PLAN WOULD CUT THE WORLD MARKET PRICE FOR OIL BY QUOTE NO LESS UNQUOTE THAN 35 CENTS A BARREL FROM A MARKET PRICE THAT HE ESTIMATED AT BETWEEN DOLS 10.50 AND DOLS 11 A BARREL. THE MARKET PRICE, OR 93 PERCENT OF THE POSTED PRICE FOR LIGHT ARABIAN CRUDE, THE SAUDI BENCHMARK GRADE, HAS BEEN DOLS 10.84 A BARREL.

ALTHOUGH MR. YAMANI DIDN'T SPELL IT OUT, SOME HINTS OF HIS NEW PLAN SURFACED AT THE ABU DHABI MEETING LAST WEEKEND WHEN THE THREE PERSIAN GULF PRODUCERS CHANGED THEIR PRICING FORMULAS. WHILE OIL OBSERVERS AREN'T SURE HOW CONSUMERS MIGHT BENEFIT, THEY NOTED THAT THE PLAN INVOLVES A MAJOR INCREASE IN THE AMOUNTS OF OIL SOLD TO THIRD-PARTY CUSTOMERS BY THE NATIONAL OIL COMPANIES, PETROMIN IN SAUDI ARABIA'S CASE.

PETROMIN'S SALES
UNCLASSIFIED

UNCLASSIFIED

PAGE 04 STATE 253518

UNTIL THE LATEST PRICE CHANGES, PETROMIN WAS AT A DISADVANTAGE IN MARKETING SAUDI OIL. IT WAS SELLING ONLY ABOUT 5 PERCENT OF ARAMCO'S OUTPUT, BECAUSE IT WAS CHARGING 93 PERCENT OF THE OLD POSTED PRICE, OR DOLS 10.84 A BARREL. THE U.S. OIL COMPANIES THAT ARE ARAMCO SHAREHOLDERS COULD SELL THE SAUDI OIL CHEAPER THAN PETROMIN AND AT A PROFIT BECAUSE THEIR OLD COST BASIS WAS DOLS 9.80 A BARREL.

UNDER THE NEW PRICING FORMULA, PETROMIN WILL CONTINUE TO SELL SAUDI CRUDE AT 93 PERCENT OF THE POSTED PRICE. BUT PETROMIN'S PRICE WILL BE DOWN TO DOLS 10.46 A BARREL (PRESUMABLY THE 38-CENT QUOTE SAVING UNQUOTE MR. YAMANI IS SPEAKING ABOUT) BECAUSE THE POSTED PRICE HAS BEEN REDUCED. MEANWHILE, THE WEIGHTED AVERAGE COST OF SAUDI

CRUDE FOR THE U.S. COMPANIES HAS CLIMBED TO DOLS 1036 A

BARREL. THUS, THEY WOULD BE HARD-PRESSED TO MEET
PETROMIN'S NEW PRICE AND STILL MAKE A PROFIT.

MR. YAMANI SAID SAUDI ARABIA HASN'T ANY CURRENT PLANS
TO INCREASE OLD PRODUCTION, CURRENTLY RUNNING ABOUT 8.8
MILLION BARRELS A DAY, IN VIEW OF THE WORLD CRUDE-OIL
SURPLUS. BUT HE SAID THE COUNTRY WOULD ALSO STICK BY
ITS PROMISE TO REFRAIN FROM CUTTING PRODUCTION.

TALKING TO SOME EUROPEAN AND AMERICAN REPORTERS IN HIS
OFFICE HERE, SHEIKH YAMANI ALSO SUGGESTED THAT THE SAUDI
PLAN WOULD RESULT IN LOWER TAX REVENUE TO THE U.S. GOVERN-
MENT THROUGH A REDUCTION IN OIL COMPANY PROFITS.

QUOTE WE KNOW AHEAD OF TIME THAT THIS WILL TAKE AWAY FROM
THE U.S. ALL THE ADDITIONAL INCOME THAT THEY GET FROM
THEIR TAXES ON THE OIL COMPANIES, UNQUOTE HE SAID. QUOTE
BUT WE THINK THE U.S. IS INTERESTED IN A LOWER MARKET
PRICE ALL OVER THE WORLD. AND, THEREFORE, WE THINK THE
U.S. GOVERNMENT WILL BE HAPPY WITH WHAT WE DID WHEN THE
RESULTS ARE CLEAR, EVEN THOUGH IT WILL LOSE ADDITIONAL
INCOME FOR THE TREASURY. UNQUOTE

SHEIKH YAMANI WAS ASKED IF THE SAUDI PLAN WOULD INVOLVE
UNCLASSIFIED

UNCLASSIFIED

PAGE 05 STATE 253518

SELLING A LARGER SHARE OF THE COUNTRY'S OIL ON THE OPEN
MARKET TO INDEPENDENT OIL COMPANIES WHILE REDUCING THE
AMOUNT AVAILABLE TO BE BOUGHT BACK BY ARAMCO SHAREHOLDERS.
QUOTE WE ARE STUDYING THIS, UNQUOTE HE REPLIED. QUOTE
WE ARE COORDINATING WITH THE OTHERS AND WE WANT TO DO IT
IN A MANNER THAT WILL REALIZE WHAT WE WANT--THAT'S A
LOWER MARKET PRICE. UNQUOTE

HE SAID HE EXPECTED TO RESUME DISCUSSION WITH ARAMCO FOR
TAKING OVER THE FULL 100 PERCENT OF THE COMPANY, DISCUSSIONS
THAT HAVE BEEN CONTINUING OFF AND ON MOST OF THE YEAR.
QUOTE WE WANT TO REACH AN AGREEMENT WHICH WILL CREATE
STABILITY, QUOTE HE SAID. QUOTE WE WANT THEM TO WORK
WITH US. WE FEEL THAT WE NEED THEM AND THEY NEED US.
OUR COUNTRY HAS A POLICY AGAINST NATIONALIZATION. WE
BELIEVE IN FOREIGN KNOW-HOW AND EVEN FOREIGN CAPITAL.
UNQUOTE.
END TEXT. KISSINGER

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, PRESS COMMENTS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 16 NOV 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974STATE253518
Document Source: CORE
Document Unique ID: 00
Drafter: JJSISCO:DAV
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740332-0161
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741136/aaaabenr.tel
Line Count: 219
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN SS
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: STATE 252281
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 14 NOV 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14 NOV 2002 by boyleja>; APPROVED <14-Nov-2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PRICE REDUCTIONS ON ARABIAN GULF: SAUDI ARABIAN CRUDE
TAGS: ENRG, US, XF, SA, WALL STREET JOURNAL
To: JIDDA
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005